VZCZCXYZ0000
RR RUEHWEB

DE RUEHAM #1612/01 1490846
ZNR UUUUU ZZH
R 280846Z MAY 08
FM AMEMBASSY AMMAN
TO RUEHC/SECSTATE WASHDC 2735
INFO RUEHAD/AMEMBASSY ABU DHABI 1230
RUEHGB/AMEMBASSY BAGHDAD 5995
RUEHBJ/AMEMBASSY BEIJING 0158
RUEHEG/AMEMBASSY CAIRO 3671
RUEHDM/AMEMBASSY DAMASCUS 3895
RUEHJM/AMCONSUL JERUSALEM 5040
RUEHNE/AMEMBASSY NEW DELHI 0278
RUEHRH/AMEMBASSY RIYADH 1961
RUEHTV/AMEMBASSY TEL AVIV 1202
RUEHKO/AMEMBASSY TOKYO 0276
RUEHOT/AMEMBASSY OTTAWA 0234
RUCPDOC/DEPT OF COMMERCE WASHDC
RUEHRC/DEPT OF AGRICULTURE WASHDC

UNCLAS AMMAN 001612

SIPDIS
SENSITIVE

STATE PLEASE PASS TO USTR
STATE FOR NEA/ELA and EEB/TRA

E.O. 12958: N/A
TAGS: EAGR ECON EINV ETRD JO
SUBJECT: GROWING DEMAND AND PRICES FOR POTASH AND PHOSPHATE: JORDAN CASHES IN

REF: A) AMMAN 1149
B) AMMAN 1019

¶1. (U) Summary: With growing world demand and rising prices, the combined exports of fertilizer, potash, and phosphate replaced apparel as Jordan's top export worldwide in the first quarter of ¶2008. The Chairman of the Arab Potash Company (APC) confirmed rapidly growing profits, prices, and stock prices. Jordan Phosphate Mining Company (JPMC) has had similar growth, raising the ire of local farmers who complain about a lack of domestic pricing for fertilizer. Both companies were privatized, and the Government of Jordan (GOJ) intends to maintain its minority stake in them. End Summary.

Worldwide Demand and Rising Fertilizer Prices

¶2. (U) The Jordanian Department of Statistics reported in May that the value of Jordan's fertilizer exports in the first quarter of 2008 rose 23% from $89 million to $102 million compared to the same period in 2007. Exports of crude potash rose 19% from $76 million to $92 million. Exports of crude phosphate rose 29% from $45 million to $59 million. When fertilizer, potash, and phosphate are combined, their export value now surpasses apparel as Jordan's overall top export. NOTE: Apparel continues to be the top Jordanian export to the U.S. END NOTE. Jordan's fertilizer industry is led by APC, which has a government concession to extract minerals from the Dead Sea including potash; JPMC, which is the lone company licensed to mine phosphates in Jordan; and several smaller companies, which are either subsidiaries or joint ventures between APC, JPMC, and foreign fertilizer companies. APC and JPMC were both government-owned companies that were privatized in 2003 and 2006, respectively, and are now publicly traded.

¶3. (SBU) Maysoon Bahous, Commercial Manager for Arab Fertilizers and Chemicals Industries LTD (KEMAPCO), told EconOff that worldwide demand for fertilizer continues to grow. She said this demand growth is for finished fertilizer, as well as the raw materials used in fertilizer production, including potash and phosphate. APC Chairman Mohammad Abu Hammour attributed the increased demand for fertilizer to rising world population; the increasing amount of meat in Chinese and Indian diets which requires grains for fodder; and the change to environmentally-friendly industrial fertilizer from

manure. Abu Hammour said this growing demand will continue to drive prices higher. Ahmad Khalifeh, Managing Director of Albemarle Middle East, a division of the U.S. chemical company, predicted that the prices of fertilizer and all fertilizer ingredients would remain high in the foreseeable future. Abu Hammour called the Jordanian export of potash and phosphates "the oil of Jordan."

Arab Potash Company: "We Are Making Good Money"
--- --

¶4. (U) APC extracts minerals from the Dead Sea and is the only company licensed to do so on the Jordanian side of the sea, with a 100-year concession that will end in 2056. APC has two primary products, fertilizer-grade potassium chloride and potash, with the majority of revenues coming from potash. Potash is an export-driven industry, with 96% of sales as exports, and is geared mostly towards Asian markets, according to a Jordan Investment Board (JIB) report.

¶5. (SBU) Abu Hammour said that since January, contracted potash prices have risen from $200-250 per ton to $650-700 per ton. He said demand remains high and he receives daily calls asking about availability. APC is in the midst of expanding its production from 1.9 million tons per year to 2.5 million by June 2009, and intends to expand to three million tons in the next three to five years. He noted that Israel's production from the Dead Sea is currently over three million tons per year. Correspondingly, Abu Hammour said that APC's profits have grown from $56 million in 2006 to $214 million in ¶2007. He predicted $250 million in profits in 2008 and over $350 million in 2009. Abu Hammour further predicted that APC's share price, which has grown 600% this year, would continue to rise with ongoing demand growth.

¶6. (SBU) Abu Hammour said that people have criticized the 2003 privatization of APC, arguing that the stock price increases are not benefiting Jordanians. He countered that money is going to Jordan's treasury. Mining fees, which are paid to Jordan for use of Dead Sea resources, were raised on potash from $11 to $21 per ton. In addition, the land-lease agreement was increased from $2,100 per year in 1998 to $282,000 in 2003. He said this rent is renegotiated every five years and it will likely increase 400-500% in 2008. Abu Hammour acknowledged that "we are making good money" and he was not complaining about these increases.

Anger Grows Along With JPMC Sales

¶7. (U) JPMC is the only company licensed to extract phosphate rock in Jordan, and is the largest mining and industrial employer in the country. It currently operates three mines and a downstream fertilizer and chemical plant in Aqaba. JPMC is the world's sixth largest phosphate producer, and the second largest exporter in the world. Over 64% of JPMC's production is exported.

¶8. (U) The local press reported on May 14 that JPMC's revenues grew from $110 million in the first quarter of 2007 to $134 million in the first quarter of 2008. In addition, profits grew 84% to $12 million despite rising costs for production inputs. Abu Hammour said that worldwide demand for phosphate is as high as the demand for potash. JPMC is diversifying its portfolio with the production of downstream fertilizers. It is one of the only companies in the world, according to Business Line Magazine, that produces di-ammonium phosphate (DAP), a fertilizer ingredient primarily sold to India which has seen strong growth.

¶9. (SBU) Two hundred people from agriculture-related businesses, including the Union of Farmers and Agricultural Engineers, protested in front of JPMC on May 26. Sameer Oweis, who owns several agriculture-related businesses, told EmbOff that the demonstration was against the rapid increase in prices in fertilizer and the lack of domestic pricing. He claimed JPMC has also stopped selling to local agricultural businesses. He alleged he and other domestic customers were told that JPMC is "doing maintenance" on its plant, but he claimed that they were continuing to export phosphate products. He said that ammonium phosphate has gone from $282 to $846 per ton, potassium chloride from $150 to $625 per ton, and potassium nitrate from $422 to $950 per ton since January. Weis said that he spoke to Prime Minister Dahabi about the situation and was told that the PM cannot interfere in private businesses. Oweis

argued that JPMC is not entirely a private business because it is "using Jordan's treasure." He added that Saudi Arabia and the United Arab Emirates are not selling their top commodity, oil, domestically at world prices but are instead selling it at a lower, domestic price and Jordan should do the same with its natural resources.

Subsidiaries Not As Successful As The Parent Companies
--- ---------

¶10. (SBU) Abu Hammour noted that APC has several subsidiary companies: APC Salt for industrial salt; Numira for Dead Sea health and beauty products; Jordan Magnesium; Nippon Jordan Fertilizer Company; and KEMAPCO. He said all were formed with the goal of increasing the amount of Jordan's downstream products, but admitted that success to date has been limited because of poor management and poor feasibility assessments. The magnesium business case predicted a 7.5 percent rate of return which he said was far too low relative to the risk. He said magnesium production was halted in 2004 because of losses and APC seeks to sell the entire company.

¶11. (SBU) Nippon Jordan Fertilizer Company (NJFC) is a joint venture between APC, JPMC, and Japanese companies including Mitsubishi. The company now produces 300,000 tons per year of nitrogen, potassium, and phosphorous fertilizer and operates a facility in Aqaba. KEMAPCO General Manager Bassam al Zoumot explained that KEMAPCO was founded as a joint venture between APC and the Finnish company Kemara, which had deep knowledge about the manufacturing of potassium nitrate. Zoumot said that APC, which now owns 100% of

KEMAPCO, will offer a 40-80% stake in KEMAPCO sometime in late May or early June. KEMAPCO has two products: potassium nitrate, a water-soluble fertilizer, and dicalcium phosphate, an animal feed.

After Privatization, Government Continues To Benefit
--- -------

¶12. (SBU) Executive Privatization Commission's (EPC) Secretary General Dina Dabbas said the government of Jordan (GOJ) owns 26% of the shares of APC and JPMC following their respective privatizations. NOTE: APC Chairman Abu Hammour was previously the head of EPC. END NOTE. She said the government has no intention of changing its investment level, and highlighted that the Social Security Commission owns additional shares. The GOJ's active role in these companies ended with privatization, but benefits from mining fees and the growing tax revenue received. Abu Hammour said that while the Canadian firm that owns 28% of APC retains management control, GOJ has a majority of board members including the chair.

Impact of Inflation and Employment Trends

¶13. (SBU) All interlocutors said that inflation was impacting their businesses through rising transportation and energy, particularly electricity, costs (ref A). Abu Hammour predicted that inflation in Jordan will continue to rise throughout 2008 and 2009 with continued fuel price increases impacting nearly all product categories. He said that APC's annual costs had increased by $14 million primarily because of high oil costs, but that the increases were offset by increased revenue. Zoumot said KEMAPCO was also impacted by the dinar's peg to the dollar which was increasing the cost of European replacement parts.

¶14. (SBU) Zoumot also explained that inflation was impacting his employees, and noted that it was becoming more difficult to recruit employees to his plant in Aqaba where the cost of living was growing particularly rapidly (ref B). Khalifeh said Jordan Bromine, a major potash customer, has raised its employee's salaries three times since September 2007 because of inflation. These raises were necessary because of the rising prices of consumer goods, as well as the fear of having employees recruited away to the Gulf states.

¶15. (SBU) In spite of growing sales and profits, employment rates are not increasing. The manufacture of fertilizer is not a labor-intensive industry, and employment numbers have been falling since privatization. APC has seen a steady decline in employment, from 2,600 employees in 1998 to 1,900 in 2007. JPMC has also seen a

decline in employment, from 6,000 in 1998 to 3,700 in 2008. Across companies, plants are staffed with a mix of engineers, skilled and semi-skilled technical workers, most of whom are Jordanian.

Comment

¶16. (SBU) Jordan's fertilizer industry is an important one particularly because these export industries help Jordan's balance of trade and bring in foreign currency. Post contacts agree that demand for these products will continue to rise, as will their prices. Jordan's domestic agricultural sector is, however politically well-connected, and growing complaints about being priced out of the market or forced to buy at world prices continues to highlight the balance GOJ must play as it promotes private sector growth.

Visit Amman's Classified Website at
http://www.state.sgov.gov/p/nea/amman/

HALE